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C O N F I D E N T I A L SECTION 01 OF 02 VILNIUS 000562

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STATE FOR EUR/NB, INR/EUC

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SUBJECT: LITHUANIAN PRESIDENT PROPOSES SOCIAL DEMOCRAT FOR PRIME MINISTER

REF: VILNIUS 526

Classified By: Pol/Econ Officer Randolph Flay for reasons 1.4(b/d)

SUMMARY

¶1. (SBU) President Valdas Adamkus nominated Social Democrat and acting Prime Minister Zigmantas Balcytis for the post of Prime Minister on June 15. Parliament needs to vote on the nomination before June 22, and may vote as early as June 20. The Social Democratic parliamentary bloc has not yet been able to form a majority coalition in the 141-member parliament. The Social Democrats' new coalition looks to include the right-leaning Liberal Centrist Party, led by scandal-tainted Vilnius mayor Arturas Zuokas. Balcytis, Minister of Finance until his elevation to acting PM on June 1, is a status quo figure who pledges to continue the previous government's program. End summary.

FORMER FINANCE MINISTER BALCYTIS GETS THE NOD

¶2. (SBU) The President made an 11th-hour decision to nominate Social Democrat and Acting PM Zigmantas Balcytis for the post of Prime Minister just before the Constitutional time limit ended today. Adamkus had encouraged the Social Democrats and Conservatives to form the nucleus of a governing coalition, but those talks broke down on June 6. Balcytis is a mainstream Social Democrat, a professional, and enjoys a good reputation among his peers from different parties. Nonetheless, his Social Democratic bloc -- which officially includes only 43 members of parliament (MPs) at present -- faces an uphill struggle in parliament.

¶3. (U) The Conservative bloc (45 MPs) has promised to vigorously oppose Balcytis's nomination. In parliament today, the Conservatives went after Balcytis on several counts, including his alleged efforts to study at a KGB school in 1981, his family's business interest in an asphalt company that seeks to obtain contracts associated with EU Structural Funds, and conflict-of-interest charges surrounding his son's employment at a government office that evaluates projects for EU funding. President Adamkus said today that he would demand Balcytis's resignation if allegations about his family's inappropriate economic activities proved true.

¶4. (C) Conservative MP Rasa Jukneviciene, however, told us today that she expects the Social Democrats will gather enough support for Balcytis's confirmation. She also said that Social Democrat and acting Defense Minister Gediminas Kirkilas offered again (unofficially) for the Conservatives to join the coalition. She emphasized, however, that she sees programmatic differences as a major obstacle to forming

a so-called "rainbow coalition" that would unite Social Democrats and Conservatives.

¶15. (SBU) During parliamentary hearings today, Balcytis said that the Social Democrats bloc will continue negotiations with other parties to form a ruling coalition with majority support. Besides the Liberal and Center Union (8 MPs), Social Democrats expect 10-20 Labor Party MPs to join their bloc (either by joining the Social Democrats or as independent supporters of a minority government). Local media speculates that an indictment against the Labor Party and some of its leaders for undeclared campaign contributions and other inappropriate behavior may come as early as tomorrow. Adding Liberal Centrist and Labor members could bring the Social Democrats close to the 71 MPs needed for a majority.

"SUBSCRIBER" COULD SNEAK INTO COALITION

¶16. (C) The one-time golden boy of Lithuanian politics, Vilnius mayor Arturas Zuokas, is still vying for a role in the coalition. A couple of years ago, Zuokas was a rising political star. He had strong support from the President and his party was on the rise. Charges of vote-rigging, corruption, and nefarious land deals then led President Adamkus to call for his resignation as mayor and split Zuokas's party. In 2005, an ad hoc parliamentary commission identified him as the recipient of large amounts of money for decisions favorable to the infamous Rubicon group. Despite voice recordings of Zuokas indicating that he received kickbacks for city contracts under the codename "subscriber," he has evaded prosecutors and has not been convicted of any wrongdoing. What remains of his party controls eight

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parliamentary seats.

WHAT TO EXPECT NEXT WEEK

¶17. (SBU) The parliament must vote on Balcytis's nomination on or before June 22, and may vote as early as June 20. With parliament's approval, the President will charge the Prime Minister to form the government. The PM-designate then has 15 days to present the Seimas a list of ministers, pre-approved by the President, and the government's program. If the parliament does not vote on the draft program within 30 days or if it rejects the draft program twice within 60 days, the President has the right to announce pre-term elections.

COMMENT

¶18. (C) It will be difficult for either Balcytis or Conservative leader Andrius Kubilius to cobble together a majority, but President Adamkus's decision suggests that he thinks Balcytis has the best shot. Balcytis's credentials as former Finance Minister, support from the President, and his centrist, technocratic reputation make him more acceptable to many MPs than Kubilius, whom many see as too uncompromising to hold together a necessarily diverse governing coalition. Regardless of what the current political turmoil produces, however, we expect Lithuania to remain a staunch U.S. ally.

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